

# **Report of the auditor-general to the Northern Cape Provincial Legislature and the council on Tsantsabane Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I was engaged to audit the financial statements of the Tsantsabane Local Municipality set out on pages X to X, which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall

presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **Basis for qualified opinion**

### **Property, plant and equipment**

6. The municipality did not correctly value all items of infrastructure assets in accordance with GRAP 17, *Property, plant and equipment*. In addition, the depreciation and the accumulated depreciation for infrastructure assets were incorrectly calculated, because of the incorrect valuation. I was not able to determine the impact on the net carrying amount of infrastructure assets, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments to infrastructure assets stated as R471 843 563 (2015: R481 331 056) in note 5 in the financial statements and depreciation and amortisation stated as R17 875 112 (2015: R17 614 251) in note 37 in the financial statements were necessary. Additionally, there was a resultant impact on the deficit for the current and prior period surplus and on the accumulated surplus in the financial statements.

### **Consumer receivables from exchange transactions**

7. I was unable to obtain sufficient appropriate audit evidence for consumer receivables from exchange transactions, as the municipality did not have adequate systems in place and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments to consumer receivables from exchange transactions stated as R140 441 374 (2015: R112 456 670) and the allowance for impairment stated at R122 800 401 (2015: R98 193 008) in note 15 in the financial statements were necessary.

### **Revenue from exchange transactions**

8. In the prior year the municipality did not account for revenue from exchange transactions in accordance with GRAP 9, *Revenue from exchange transactions*. Consequently, consumer receivables from exchange was overstated by R3 265 375, consumer revenue from exchange was overstated by R2 781 830 and VAT receivable was understated by R483 546, due to incorrect meter readings and tariffs used and consumers not billed for services. Additionally, there was a resultant impact on the surplus for the prior period and on the accumulated surplus in the financial statements.

### **Consumer receivables from non-exchange transactions**

9. I was unable to obtain sufficient appropriate audit evidence for consumer receivables from non-exchange, as the municipality did not have adequate systems in place to account for receivables from non-exchange and I could not confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments to consumer receivables from non-exchange stated as R27 789 592 and the allowance for impairment stated at R23 269 795 in note 13 in the financial statements were necessary.



## **Fines, penalties and forfeits**

10. The municipality did not account for revenue from non-exchange transactions (fines, penalties and forfeits) in accordance with GRAP 23, *Revenue from non-exchange transactions*, and iGRAP 1, *Applying the probability test on initial recognition of revenue*, because the municipality recognised revenue from non-exchange transactions (fines, penalties and forfeits) on a cash basis. I was not able to determine the understatement on the receivables and revenue from non-exchange and the related provision for fines, penalties and forfeits in the current and prior year by alternative means, as it was impracticable to do so.

## **Payables from exchange transactions**

11. The municipality did not accurately calculate and disclose payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. This resulted in payables from exchange transactions being understated by R2 472 937 and general expenditure understated by R2 472 937, as disclosed in note 22 to the financial statements. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus in the financial statements.
12. In addition, during the 2014 year the municipality did not account for payables from exchange transactions in accordance with GRAP 1, *Presentation of financial statements*. Consequently, the prior year accumulated surplus is overstated by R2 384 219 and the prior year general expenditure, note 31, is overstated with by R2 384 219.

## **Provisions**

13. The municipality did not recognise a provision for a landfill site in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets*. I was not able to determine the impact on the net carrying amount of provisions for the current and prior year, as it was impracticable to do so. Consequently, I was unable to determine whether any further adjustments to provisions stated as R10 235 219 (2015: R6 487 263) in note 20 in the financial statements were necessary. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus.

## **Irregular expenditure**

14. The municipality did not disclose all irregular expenditure in the notes to the financial statements, as required by section 125(2)(d)(i) of the MFMA. The municipality incurred expenditure in contravention with the supply chain management (SCM) requirements in note 52 to the financial statements, resulting in irregular expenditure being understated by R12 359 130 (2015: R20 000 567).
15. In addition, the council did not have the authority to write off irregular expenditure amounting to R65 510 778 as disclosed in note 52, because no investigations were conducted prior to the write off as required by section 32(2)(b) of the MFMA. Consequently, the irregular expenditure is understated by the above stated amount.
16. I was unable to obtain sufficient appropriate audit evidence regarding irregular expenditure due to the lack of evidence and registers that management had properly identified, investigated and recorded all irregular expenditure transactions during the current and prior years. I was unable to confirm the balance disclosed by alternative

means. Consequently, I was unable to determine whether any further adjustment to irregular expenditure, disclosed as R0 (2015: R61 975 508) in note 52 to the financial statements, was necessary.

## **Unauthorised expenditure**

17. During 2015, unauthorised expenditure was stated at R6 155 327 in note 50 to the financial statements. The municipality restated the 2015 figures but did not restate the prior year unauthorised expenditure figure according to the definition of unauthorised expenditure as stipulated in the MFMA. Consequently, this has an impact on the closing balance of the current year.

## **Fruitless and wasteful**

18. The council did not have the authority to write off fruitless and wasteful expenditure amounting to R1 243 012 as disclosed in note 51, since no investigations were conducted prior to the write off as required by section 32(2)(b) of the MFMA. Consequently, the fruitless and wasteful expenditure is understated by the above stated amount.
19. In addition, I was unable to obtain sufficient appropriate audit evidence regarding fruitless and wasteful expenditure due to the lack of evidence and registers that management had properly identified, investigated and recorded all fruitless and wasteful expenditure in the current and prior years. I was unable to confirm the balance disclosed by alternative means. Consequently, I was unable to determine whether any further adjustment to fruitless and wasteful expenditure, disclosed as R24 680 329 (2015: R21 224 305) in note 51 to the financial statements, was necessary.

## **Contingent liabilities**

20. I was unable to obtain sufficient appropriate audit evidence that management has properly accounted for all contingent liabilities as all legal representation letters were not submitted for audit purposes. I was unable to confirm contingent liabilities by alternative means. Consequently, I was unable to determine whether any further adjustments to contingent liabilities disclosed in note 43 were necessary.

## **Qualified opinion**

21. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Tsantsabane Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with the SA standards of GRAP and the requirements of the MFMA and DoRA.

## **Emphasis of matters**

22. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Restatement of corresponding figures**

23. As disclosed in notes 45 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

## **Material losses**

24. As disclosed in note 54 to the financial statements material losses, which exceeded the norm, to the amount of R11 410 628 (2015; R9 862 215) for electricity distribution and to the amount of R7 537 192 (R2 277 600) for water distribution was incurred.

## **Additional matters**

25. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited supplementary schedules**

26. The supplementary information set out on pages ... to ... does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **Unaudited disclosure notes**

27. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly we do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

28. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

29. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:

- Development priorities 7: Physical infrastructure and energy efficiency on pages X to X
  - Development priorities 8: Safety and environment on pages X to X
  - Development priorities 9 and 15: Services and customer care on pages X to X
  - Development priorities 10 Social and community development on pages X to X
30. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
31. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
32. The material findings in respect of the selected development priorities are as follows:

## **Development priority 7: Physical infrastructure and energy efficiency**

### **Usefulness of reported performance information**

33. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives and targets were not consistent with those in the approved integrated development plan. This was due to the lack of an adequate internal policies and procedures when drafting the planning and reporting documents.
34. The measurability of 100% important planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.

### **Reliability of reported performance information**

35. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

## **Development priority 8: Safety and environment**

### **Usefulness of reported performance information**

36. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives and targets were not consistent with those in the approved integrated development plan. This was due to the lack of an adequate internal policies and procedures when drafting the planning and reporting documents.
37. The measurability of 100% important planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.

### **Reliability of reported performance information**

38. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

## **Development priority 9 and 15: Services and customer care**

### **Usefulness of reported performance information**

39. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives and targets were not consistent with those in the approved integrated development plan. This was due to the lack of an adequate internal policies and procedures when drafting the planning and reporting documents.
40. The measurability of 100% important planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.

### **Reliability of reported performance information**

41. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.



## **Development priority 10: Social and Community**

### **Usefulness of reported performance information**

42. Section 41(c) of the Municipal Systems Act requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported objectives and targets were not consistent with those in the approved integrated development plan. This was due to the lack of an adequate internal policies and procedures when drafting the planning and reporting documents.
43. The measurability of 100% important planned targets and indicators could not be assessed due to a lack of technical indicator descriptions and proper systems and processes and formal standard operating procedures or documented system descriptions.

### **Reliability of reported performance information**

44. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of the reported performance information. This was due to limitations placed on the scope of my work due to the fact that the auditee could not provide sufficient appropriate evidence in support of the reported performance information. The auditee's records did not permit the application of alternative audit procedures.

## **Additional matters**

45. I draw attention to the following matters:

### **Achievement of planned targets**

46. Refer to the annual performance report on pages x to x; x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x; x; x of this report.

### **Unaudited supplementary information**

47. The supplementary information set out on pages x to x does not form part of the annual performance report and is presented as additional information. I have not audited these schedules and, accordingly, I do not report on them.

## **Compliance with legislation**

48. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Strategic planning and performance management**

49. The performance management system and related controls were inadequate as it did not describe and represent the processes of performance planning, monitoring, measurement, review, reporting and improvement and how it is conducted, organised and managed, including determining the roles of the different role-players, as required by sections 38 of the MSA and regulation 7 of the *Municipal planning and performance management regulations*.
50. The performance management system was not in line with the priorities, objectives, indicators and targets contained in its integrated development plan and did not clarify the roles and responsibilities of each role-player and did not determine the frequency of reporting and the lines of accountability and as required by section 38(a) of the MSA and Municipal planning and performance management regulation 7(2)(c).
51. The KPIs set by the municipality did not include indicators on percentage of households with access to basic level of water, sanitation, electricity and solid waste removal were not set by the municipality as required by section 43(2) of the MSA and the Municipal planning and performance management regulation 10(a).
52. Performance targets were not set for each of the key performance indicators for the financial year as required by section 41(1)(b) of the MSA and the Municipal planning and performance management regulations 12(1) and 12(2)(e).
53. The service delivery and budget implementation plan (SDBIP) for implementing the municipality's delivery of municipal services and annual budget did not indicate projections for each month of the revenue to be collected, by source and the operational and capital expenditure, by vote, and service delivery targets and performance indicators for each quarter as required by section 1 and 53(1)(c) of the MFMA.
54. The annual performance report for the year under review did not include the performance of the municipality and a comparison of the performance with set targets and comparison with the previous financial year and measures taken to improve performance, as required by section 46 (1)(a) of the MSA.

## **Budgets**

55. Expenditure was incurred in excess of the approved budget, in contravention of section 87(8) of the MFMA.
56. The total unforeseen and unavoidable expenditure incurred exceeded 5% of own revenue, in contravention of Municipal Budget and Reporting Regulation 72.

## **Financial statements, performance and annual reports**

57. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, revenue, expenditure liabilities and disclosures identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.
58. The annual performance report for the year under review did not include a comparison with the previous financial year performance as required by section 46 (1)(b) of the MSA.

59. The annual financial statements were not submitted for auditing within two months after the end of the financial year, as required by section 126(1)(a) of the MFMA.

## **Procurement and contract management**

60. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by supply chain management (SCM) regulation 17(a) & (c).
61. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
62. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1).
63. Sufficient appropriate audit evidence could not be obtained that bid specifications for procurement of goods and services through competitive bids were drafted in an unbiased manner that allowed all potential suppliers to offer their goods or services, as per required by SCM regulation 27(2)(a).
64. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) & 22(2).
65. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
66. Bid adjudication was not always done by committees which were composed in accordance with SCM regulation 29(2).
67. Awards were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b).
68. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a).
69. Contracts and quotations were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
70. Contracts and quotations were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM Regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations.
71. Contracts and quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
72. Construction contracts were awarded to contractors that were not registered with the Construction Industry Development Board (CIDB) and did not qualify for the contract, in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A).
73. Thresholds for local content on designated sectors procurement were not properly applied in accordance with the requirements of preferential procurement regulation 9.

74. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
75. Awards were made to providers who are in the service of the municipality in contravention of section 112(j) of the MFMA and SCM regulations 44. Furthermore the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c).
76. Awards were made to providers who are in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulations 44. Similar awards were identified in the prior year and no effective steps were taken to prevent or combat the abuse of the SCM process in accordance with SCM regulation 38(1).
77. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).
78. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, as required by SCM regulation 46(2)(e).
79. Sufficient appropriate audit evidence could not be obtained that contract and quotations were only awarded to providers whose tax matters have been declared by the South African Revenue Service to be in order as required by SCM regulation 43.
80. Sufficient appropriate audit evidence could not be obtained that measures to combat the abuse of the SCM system were implemented as per the requirements of SCM regulation 38(1).
81. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

## **Expenditure management**

82. Money owed by the municipality was not always paid within 30 days, as required by section 65(2) (e) of the MFMA.
83. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the MFMA.

## **Conditional grants received**

84. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant allocation, as required by section 12(5) of the DoRA.

## **Revenue management**

85. An effective system of internal control for debtors and revenue was not in place, as required by section 64(2) (f) of the MFMA.

## **Asset management**

86. An effective system of internal control for assets was not in place, as required by section 63(2) (c) of the MFMA.

## **Consequence management**

87. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
88. Irregular expenditure and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
89. Losses resulting from irregular expenditure fruitless and wasteful expenditure were not always recovered from the liable person, as required by section 32(2) of the MFMA.
90. Council certified irregular expenditure and fruitless and wasteful expenditure as irrecoverable without having conducted an investigation to determine the recoverability of the expenditure, in contravention of section 32(2)(b) of the MFMA.

## **Internal control**

91. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

## **Leadership**

92. The accounting officers did not evaluate whether management had implemented effective internal controls by gaining an understanding of how senior management members had met their responsibilities in terms of ensuring proper records management, maintaining an asset register and preparing the annual financial statements.
93. The accounting officers and senior management did not take timeous and adequate action to address weaknesses in the finance and supply chain management directorate, which resulted in non-compliance with applicable legislation and gave rise to unauthorised, fruitless and wasteful and irregular expenditure.
94. The accounting officers and senior management of the municipality did not ensure that internal control procedures were developed, implemented and monitored to ensure that daily disciplines were performed and reviewed.
95. The lack of decisive action to mitigate emerging risks, implement timely corrective measures and address non-performance was evident by the failure of management to adequately address the external audit findings in a timely manner. The municipality failed to properly analyse the control weaknesses and implement appropriate follow-up actions that adequately addressed the root cause. This resulted in the audit findings in the prior year report being recurring in the current year.
96. The accounting officers and senior management failed to implement adequate controls to ensure compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

## Financial and performance management

97. The municipality did not have the capacity to address backlog issues and financial system problems, resulting in the need to appoint consultants. Consultants assisted with the preparation of an asset register and annual financial statements.
98. The accounting officer did not prepare regular, accurate and complete financial statements that are supported and evidenced by reliable information, review and monitor compliance with laws and regulations.
99. Finance staff had an insufficient understanding of the accounting framework. This contributed to the numerous misstatements in the financial statements of the municipality.
100. Effective and appropriate disciplinary steps were not taken against officials who made and permitted unauthorised, irregular and fruitless and wasteful expenditure.
101. The underlying systems and controls were inadequate to provide reliable and accurate evidence to support the reporting on predetermined objectives. Senior management did not perform an adequate review on the actual performance against predetermined objectives reported therefore no explanations were documented for targets that were not achieved.

## Governance

102. The annual financial statements contained numerous inaccuracies, which are attributable to weaknesses in the design and implementation of internal control in respect of financial management and financial reporting, and weaknesses in the information systems.
103. Management did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks and fraud prevention, are conducted and that a risk strategy to address the risks is developed and monitored.
104. The municipality had an internal audit division, it was not adequately resourced and functioning to identify internal control deficiencies and provide recommendations.
105. An audit committee and performance audit committee was not effective in the financial year even though it was appointed in the year.

*Aud. Hox Senesal*

Kimberley

5 April 2017



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

